

1 **Q. Please provide your full name, title, and business address for the record.**

2 A. My name is James C. Smith and I am the City Manger for the City of Newport, Rhode Island.
3 My office is located at City Hall, 43 Broadway, Newport, RI 02840.

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5 **Q. How long have you held this position?**

6 A. I have held the position of City Manager since November 4, 2002.

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8 **Q. What are your responsibilities as City manager with regard to the Newport Water
9 System?**

10 A. I assist in formulation, review, presentation and ultimately adoption of the Water Utility's
11 budget and have executive authority for contracting, employees and policy of the utility.

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13 **Q. What is the purpose of this testimony?**

14 A. To point out the impact of the water utility's negative cash flow on the finances of the City
15 government, schools and library.

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17 **Q. The Water Fund over the years has received a total of \$2.5 million from the City's
18 General Fund to meet the revenue shortfalls. Can you describe the impact this has had on
19 the City's cash flow?**

20 A. When I arrived in 2002, I discovered that the Water Fund was going to run a deficit, taking
21 in \$8 million and expending \$11 million. Even discounting the non-cash depreciation I could see
22 a serious problem had developed. Subsequently, I discovered this shortfall did not include a
23 further requirement to reserve an additional \$3.5 million for chemicals, debt service and capital
24 outlay. Nonetheless, public necessity, health and safety dictated we continue to operate the
25 water system though it would require the Newport taxpayers to advance money to a water system
26 which serves three (3) cities and the Navy. By the end of this fiscal year, Newport taxpayers will
27 have lent the Water Utility \$5.5 million. The City's General Fund follows a policy of carrying
28 10% of its revenues in unrestricted fund balance because of our tourism economic base and
29 exposure to weather and terrorism threats. Our General Fund budget is \$68 million. Therefore
30 our goal would be to have \$6.8 million in reserves. With the Water Utility consuming \$5.5
31 million of the \$6.8 and borrowing further next year, we will soon run out of cash to pay our bills
32 for police, fire, streets, schools, etc.

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2 I would also note that the City of Newport is using taxes paid solely by Newport taxpayers to
3 fund these accounts that benefit all of Newport Water's customers. This includes customers such
4 as the Navy, The Town of Middletown and the Town of Portsmouth. Therefore, a small
5 subsection of Newport Water ratepayers (i.e. Newport Taxpayers) are subsidizing the entire
6 system

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8 **Q. Does this conclude your testimony?**

9 A. Yes, except for providing any testimony in response to submissions by any parties to this
10 proceeding, this concludes my Direct Testimony.